

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
LIBERTY HILL, TEXAS**

For the Year Ended  
September 30, 2015

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# **CITY OF LIBERTY HILL, TEXAS**

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## ***INDEPENDENT AUDITORS' REPORT***

To the Honorable Mayor and  
City Council Members of the  
City of Liberty Hill, Texas:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Liberty Hill, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Governmental  
Audit Quality Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
March 14, 2016

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***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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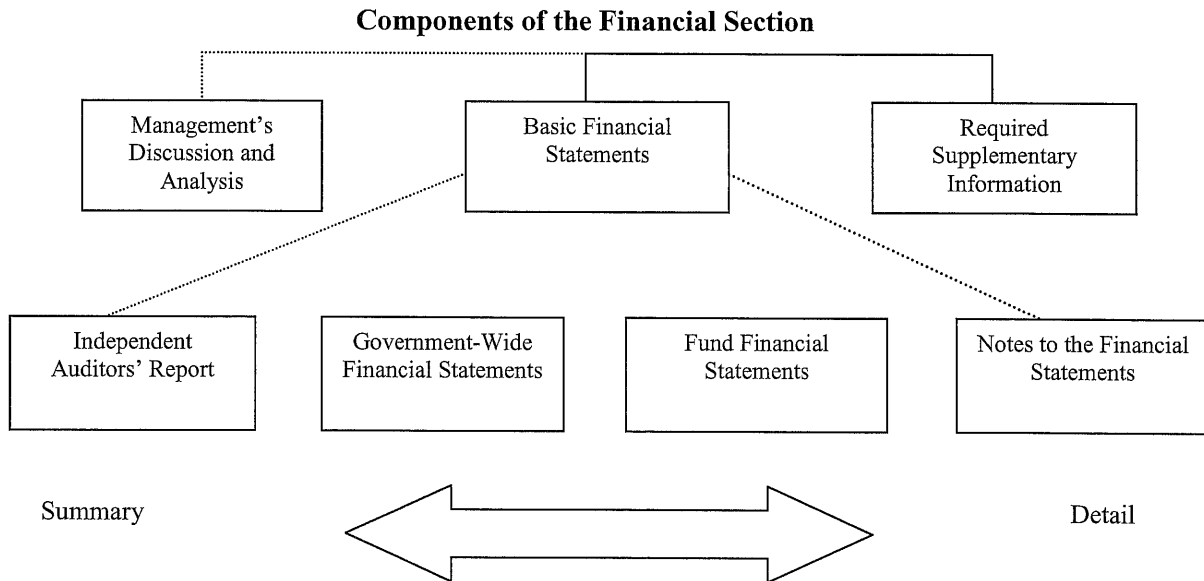
# CITY OF LIBERTY HILL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Liberty Hill, Texas (the "City") for the year ended September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

### Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2015**

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, which include general government, public safety, and public works. Interest payments on the City's governmental debt are also reported here. Sales taxes, property taxes, franchise taxes, and other revenue finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and sewer operations. Interest payments on the City's business-type debt are also reported here.

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and debt service fund, which are considered to be major funds. While the street maintenance fund and Liberty Hill Economic Development Corporation (LHEDC) fund did not technically meet the criteria of being reported as a major fund, the City has elected to present these funds as a major fund due to their significance.

The City adopts an annual appropriated budget for each of its four governmental funds. Budgetary comparison schedules have been provided for each fund to demonstrate compliance with these budgets.

### **Proprietary Funds**

The City maintains three proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City reports water, wastewater treatment, and sewer funds, which are considered to be major funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds account for

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2015

water, sewer and wastewater operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund, LHEDC fund, street maintenance fund and the schedule of changes in net position liability and related ratios, and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities by \$10,792,590 as of September 30, 2015. A portion of the City's net position (48 percent) reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

	September 30, 2015			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 2,691,592	\$ 15,577,058	\$ -	\$ 18,268,650
Capital assets, net	1,248,543	15,688,885	-	16,937,428
<b>Total Assets</b>	<b>3,940,535</b>	<b>31,265,543</b>	<b>-</b>	<b>35,206,078</b>
Deferred outflows - pensions				
<b>Total Deferred Outflows of Resources</b>	<b>33,908</b>	<b>-</b>	<b>-</b>	<b>33,908</b>
Long-term liabilities	5,610,057	17,640,000	-	23,250,057
Other liabilities	176,740	1,020,599	-	1,197,339
<b>Total Liabilities</b>	<b>5,786,797</b>	<b>18,660,599</b>	<b>-</b>	<b>24,447,396</b>
<b>Net Position:</b>				
Net investment in capital assets	1,248,543	9,518,635	(5,570,000)	5,197,178
Restricted	1,292,172	346,055	-	1,638,227
Unrestricted	(4,353,069)	2,740,254	5,570,000	3,957,185
<b>Total Net Position</b>	<b>\$ (1,812,354)</b>	<b>\$ 12,604,944</b>	<b>\$ -</b>	<b>\$ 10,792,590</b>

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2015

September 30, 2014				
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 2,087,799	\$ 5,008,508	\$ -	\$ 7,096,307
Capital assets, net	889,465	12,108,719	-	12,998,184
<b>Total Assets</b>	<u>2,977,264</u>	<u>17,117,227</u>	<u>-</u>	<u>20,094,491</u>
Deferred outflows - pensions				
<b>Total Deferred Outflows of Resources</b>	<u>8,008</u>	<u>-</u>	<u>-</u>	<u>8,008</u>
Long-term liabilities	5,956,215	5,520,000	-	11,476,215
Other liabilities	87,656	139,349	-	227,005
<b>Total Liabilities</b>	<u>6,043,871</u>	<u>5,659,349</u>	<u>-</u>	<u>11,703,220</u>
<b>Net Position:</b>				
Net investment in capital assets	884,765	8,623,534	(6,285,000)	3,223,299
Restricted	1,228,973	1,072,932	-	2,301,905
Unrestricted	(5,172,337)	1,761,412	6,285,000	2,874,075
<b>Total Net Position</b>	<u>\$ (3,058,599)</u>	<u>\$ 11,457,878</u>	<u>\$ -</u>	<u>\$ 8,399,279</u>

A portion of the City's net position, \$1,638,227, represents resources restricted to a specific purpose. The balance of unrestricted net position, \$3,957,185, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$2,393,311 during the current fiscal year, an increase of 28 percent over the prior year. The overall condition of the City improved during the year primarily due to lower operating expenses to revenues for charges for service during the current fiscal year.

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities, in the amount of \$5,570,000, is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

There was an increase in the beginning net position of \$14,759 for governmental activities due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.G. to the financial statements.

In the current fiscal year, GASB Statement Nos. 68 and 71 requires the City to recognize a net pension liability and deferred outflows/inflows of resources as discussed in note IV.C. to the financial statements. The net change in the pension liability increased by \$14,577 for the governmental activities during the current fiscal year. The net change in deferred outflows/inflows increased the net position by \$25,900 for governmental activities.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2015

**Statement of Activities**

The following table provides a summary of the City's changes in net position.

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 697,683	\$ 3,937,514	\$ 4,635,197	\$ 299,387	\$ 2,935,049	\$ 3,234,436
Operating grants and contributions	72,698	-	72,698	52,556	12,110	64,666
General revenues:						
Property taxes	659,661	-	659,661	623,844	-	623,844
Sales taxes	947,098	-	947,098	760,999	-	760,999
Franchise and local taxes	106,269	-	106,269	106,154	-	106,154
Other	121,579	397	121,976	235,609	393	236,002
<b>Total Revenues</b>	<u>2,604,988</u>	<u>3,937,911</u>	<u>6,542,899</u>	<u>2,078,549</u>	<u>2,947,552</u>	<u>5,026,101</u>
<b>Expenses</b>						
General government	689,482	-	689,482	534,045	-	534,045
Municipal court	141,855	-	141,855	124,265	-	124,265
Public safety	388,893	-	388,893	342,284	-	342,284
Public works	146,314	-	146,314	80,218	-	80,218
Water, sewer, and wastewater collections	-	2,330,658	2,330,658	-	1,646,855	1,646,855
Interest and fiscal agent fees on long-term debt	154,565	297,821	452,386	161,946	211,339	373,285
<b>Total Expenses</b>	<u>1,521,109</u>	<u>2,628,479</u>	<u>4,149,588</u>	<u>1,242,758</u>	<u>1,858,194</u>	<u>3,100,952</u>
<b>Increase in Net Position Before Transfers</b>	1,083,879	1,309,432	2,393,311	835,791	1,089,358	1,925,149
Transfers in (out)	162,366	(162,366)	-	285,863	(285,863)	-
<b>Change in Net Position</b>	1,246,245	1,147,066	2,393,311	1,121,654	803,495	1,925,149
Beginning net position	(3,058,599)	11,457,878	8,399,279	(4,180,253)	10,654,383	6,474,130
<b>Ending Net Position</b>	<u>\$ (1,812,354)</u>	<u>\$ 12,604,944</u>	<u>\$ 10,792,590</u>	<u>\$ (3,058,599)</u>	<u>\$ 11,457,878</u>	<u>\$ 8,399,279</u>

Overall, governmental activities revenue increased. Sales taxes revenue increased by \$186,099 or 24 percent due to a rising economy. Charges for services also increased over the prior year by \$398,296 due primarily to an increase in permit fees due to more development in the City. Governmental expenses increased by \$278,351 from prior year due primarily to increases in salaries in general government and public works.

Revenue for business-type activities increased by \$990,359 or 34 percent from the prior year mainly due to impact fees for the City's wastewater collection services in developing areas. Similarly, business-type expenses increased by \$770,285 or 41 percent as a result of the increases in operating the wastewater treatment plant.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2015**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$2,513,639. At the end of the current year, \$1,221,467 was unassigned. Total restricted fund balance for various purposes is \$1,250,471.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,221,467, while total fund balance reached \$1,300,744. Of this amount, \$37,576 is restricted for municipal court security and technology and \$41,701 is restricted for communication equipment that is related to Public Education Government fees collected from cable companies. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 93 percent of total general fund expenditures, while total fund balance represents 99 percent of the same amount. The general fund in total demonstrated an overall increase of \$467,986 due to a transfer in from the enterprise fund and revenue received for permits due to a higher volume of development.

The debt service fund balance of \$98,263 is restricted for future debt payments of principal and interest. The debt service fund slightly increased by \$16,032.

The economic development corporation fund balance increased \$23,718 as a result of more sales tax revenue than expenditures during the year. The ending fund balance of \$734,066 is restricted for economic development.

The street maintenance fund reported a fund balance of \$380,566, which was an increase of \$12,869. The street maintenance fund is restricted for repair and maintenance expenditures on streets in the City.

**Proprietary Funds** – The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Budgeted general fund revenues exceeded actual revenues by \$483,647 during the year. This net negative variance includes the positive variance of \$99,818 for sales tax and permit and licenses revenues due to a better economy and more development. The net negative variance is primarily due to less revenue from intergovernmental activities than expected. General fund expenditures were under the final budget by \$578,075 mainly due to a positive variance of \$424,225 in general administration expenditures. This positive variance comes from less spending on payroll and capital outlay than expected.

**CAPITAL ASSETS**

At the end of the year, the City's governmental and business-type activities had invested \$1,248,543 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$158,715 from the prior year. The City's business-type activities funds had invested \$15,688,885 in capital assets and infrastructure (net of accumulated depreciation). This represents a decrease of \$210,238 from the prior year.



**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2015**

Major capital asset events during the year included the following:

- A total of four vehicles for the police and public works department \$134,318
- Purchase of land \$158,334
- Construction in progress related to the Phase 3B wastewater and sewer system for \$3,061,411
- Construction in progress for waterworks system for \$728,992

More detailed information about the City's capital assets is presented in note III. C. to the financial statements.

**LONG-TERM DEBT**

At the end of the current year, the City's governmental funds had total certificates of obligation outstanding of \$5,570,000. Business-type activities had total revenue bonds outstanding of \$17,640,000 at year end. The City issued its 2014 water system revenue bonds and 2014 wastewater treatment facility bonds for \$2,500,000 and \$10,000,000, respectively. More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City Council approved a \$2.3 million budget for the 2015/2016 year. The total property tax rate for 2015 decreased to \$0.527842. The maintenance and operation rate will decrease to \$0.100312 and debt service rate will increase to \$0.427530.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Amber Lewis, City Finance Director, City Hall, 1120 Loop 332, Liberty Hill, Texas, 78642; telephone (512) 778-5449.

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## ***BASIC FINANCIAL STATEMENTS***



# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 2,487,811	\$ 15,333,124	\$ -	\$ 17,820,935
Receivables, net	203,781	243,934	-	447,715
Internal balances	400	(400)	-	-
	<u>2,691,992</u>	<u>15,576,658</u>	<u>-</u>	<u>18,268,650</u>
Capital assets:				
Nondepreciable capital assets	410,350	4,893,819	-	5,304,169
Net depreciable capital assets	838,193	10,795,066	-	11,633,259
	<u>1,248,543</u>	<u>15,688,885</u>	<u>-</u>	<u>16,937,428</u>
<b>Total Assets</b>	<u>3,940,535</u>	<u>31,265,543</u>	<u>-</u>	<u>35,206,078</u>
<b><u>Deferred Outflow of Resources</u></b>				
Deferred outflows - pensions	33,908	-	-	33,908
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	164,420	912,147	-	1,076,567
Customer deposits	-	59,550	-	59,550
Accrued interest	12,320	48,902	-	61,222
	<u>176,740</u>	<u>1,020,599</u>	<u>-</u>	<u>1,197,339</u>
Noncurrent liabilities:				
Long-term liabilities due within one year	404,008	900,000	-	1,304,008
Long-term liabilities due in more than one year	5,206,049	16,740,000	-	21,946,049
	<u>5,610,057</u>	<u>17,640,000</u>	<u>-</u>	<u>23,250,057</u>
<b>Total Liabilities</b>	<u>5,786,797</u>	<u>18,660,599</u>	<u>-</u>	<u>24,447,396</u>
<b><u>Net Position</u></b>				
Net investment in capital assets	1,248,543	9,518,635	(5,570,000)	5,197,178
Restricted	1,292,172	346,055	-	1,638,227
Unrestricted	(4,353,069)	2,740,254	5,570,000	3,957,185
<b>Total Net Position</b>	<u>\$ (1,812,354)</u>	<u>\$ 12,604,944</u>	<u>\$ -</u>	<u>\$ 10,792,590</u>

See Notes to Financial Statements.

# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
<b>Governmental Activities</b>			
General government	\$ 689,482	\$ 565,546	\$ -
Municipal court	141,855	-	-
Public safety	388,893	132,137	-
Public works	146,314	-	72,698
Interest and fiscal agent fees on long-term debt	154,565	-	-
<b>Total Governmental Activities</b>	<u>1,521,109</u>	<u>697,683</u>	<u>72,698</u>
<b>Business-Type Activities</b>			
Water, sewer, and wastewater collections	2,330,658	3,937,514	-
Interest and fiscal agent fees on long-term debt	297,821	-	-
<b>Total Business-Type Activities</b>	<u>2,628,479</u>	<u>3,937,514</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 4,149,588</u>	<u>\$ 4,635,197</u>	<u>\$ 72,698</u>
<b>General Revenues:</b>			
Taxes:			
Property taxes			
Sales taxes			
Franchise and local taxes			
Other			
Transfers			
<b>Total General Revenues and Transfers</b>			
<b>Change in Net Position</b>			
Beginning net position			
<b>Ending Net Position</b>			

See Notes to Financial Statements.

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (123,936)	\$ -	\$ (123,936)
(141,855)	-	(141,855)
(256,756)	-	(256,756)
(73,616)	-	(73,616)
(154,565)	-	(154,565)
(750,728)	-	(750,728)
-	1,606,856	1,606,856
-	(297,821)	(297,821)
-	1,309,035	1,309,035
(750,728)	1,309,035	558,307
659,661	-	659,661
947,098	-	947,098
106,269	-	106,269
121,579	397	121,976
162,366	(162,366)	-
1,996,973	(161,969)	1,835,004
1,246,245	1,147,066	2,393,311
(3,058,599)	11,457,878	8,399,279
\$ (1,812,354)	\$ 12,604,944	\$ 10,792,590

# CITY OF LIBERTY HILL, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	Liberty Hill Economic Development Corporation	Street Maintenance
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,412,420	\$ 45,993	\$ 672,835	\$ 356,563
Receivables, net	123,077	11,275	46,286	23,143
Due from other funds	400	52,270	22,446	2,228
<b>Total Assets</b>	<b><u>\$ 1,535,897</u></b>	<b><u>\$ 109,538</u></b>	<b><u>\$ 741,567</u></b>	<b><u>\$ 381,934</u></b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 155,551	\$ -	\$ 7,501	\$ 1,368
Due to other funds	76,944	-	-	-
<b>Total Liabilities</b>	<b><u>232,495</u></b>	<b><u>-</u></b>	<b><u>7,501</u></b>	<b><u>1,368</u></b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	<u>2,658</u>	<u>11,275</u>	<u>-</u>	<u>-</u>
<b><u>Fund Balances</u></b>				
Restricted:				
Municipal court	37,576	-	-	-
Communication equipment	41,701	-	-	-
Street maintenance	-	-	-	380,566
Debt service	-	98,263	-	-
LHEDC	-	-	734,066	-
Unassigned	1,221,467	-	-	-
<b>Total Fund Balances</b>	<b><u>1,300,744</u></b>	<b><u>98,263</u></b>	<b><u>734,066</u></b>	<b><u>380,566</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 1,535,897</u></b>	<b><u>\$ 109,538</u></b>	<b><u>\$ 741,567</u></b>	<b><u>\$ 381,934</u></b>

See Notes to Financial Statements.



**Total  
Governmental  
Funds**

\$	2,487,811	203,781	77,344
			2,768,936
			2,768,936

\$	164,420	76,944
		241,364

13,933
13,933

37,576
41,701
380,566
98,263
734,066
1,221,467
2,513,639
2,513,639

\$	2,768,936
	2,768,936



**CITY OF LIBERTY HILL, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2015**

Total fund balances for governmental fun		\$	2,513,639
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			
Capital assets - non-depreciable	410,350		
Capital assets - net depreciable	<u>838,193</u>		
			1,248,543
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			13,933
Deferred outflows related to the net pension liability are not reported in the governmental funds.			
Deferred outflows			33,908
Some liabilities, including bonds payable, compensated absences, accrued interest, and net pension liability, are not reported as liabilities in the governmental funds.			
Accrued interest	(12,320)		
Non-current liabilities due in one year	(5,206,049)		
Non-current liabilities due in more than one year	<u>(404,008)</u>		
			<u>(5,622,377)</u>
<b>Net Position of Governmental Activities</b>		<b>\$</b>	<b><u>(1,812,354)</u></b>

See Notes to Financial Statements.

**CITY OF LIBERTY HILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2015

			Liberty Hill Economic Development Corporation	Street Maintenance
<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>		
Property taxes	\$ 122,903	\$ 535,571	\$ -	\$ -
Sales taxes	546,472	-	258,124	142,502
Franchise and local taxes	106,269	-	-	-
Fines and forfeitures	132,137	-	-	-
Licenses and permits	565,546	-	-	-
Other	141,237	94	3,035	49,911
<b>Total Revenues</b>	<b>1,614,564</b>	<b>535,665</b>	<b>261,159</b>	<b>192,413</b>
<u>Expenditures</u>				
<b>Current:</b>				
General administration	555,269	-	237,441	-
Municipal court	141,353	-	-	-
Police department	504,167	-	-	-
Parks and recreation and street maintenance	108,155	-	-	179,544
<b>Debt service:</b>				
Principal	-	365,000	-	-
Interest expense	-	154,633	-	-
<b>Total Expenditures</b>	<b>1,308,944</b>	<b>519,633</b>	<b>237,441</b>	<b>179,544</b>
<b>Excess of Revenues Over Expenditures</b>	<b>305,620</b>	<b>16,032</b>	<b>23,718</b>	<b>12,869</b>
<u>Other Financing Sources (Uses)</u>				
Transfers in	162,366	-	-	-
<b>Total Other Financing Sources</b>	<b>162,366</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>467,986</b>	<b>16,032</b>	<b>23,718</b>	<b>12,869</b>
Beginning fund balances	832,758	82,231	710,348	367,697
<b>Ending Fund Balances</b>	<b>\$ 1,300,744</b>	<b>\$ 98,263</b>	<b>\$ 734,066</b>	<b>\$ 380,566</b>

See Notes to Financial Statements.

<b>Total Governmental Funds</b>	
\$	658,474
	947,098
	106,269
	132,137
	565,546
	194,277
	<u>2,603,801</u>
	792,710
	141,353
	504,167
	287,699
	365,000
	154,633
	<u>2,245,562</u>
	<u>358,239</u>
	<u>162,366</u>
	<u>162,366</u>
	520,605
	<u>1,993,034</u>
\$	<u><u>2,513,639</u></u>



**CITY OF LIBERTY HILL, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2015**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ 520,605
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital asset acquisitions and retirements	386,813
Depreciation expense	(27,735)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Net change in unavailable revenue - property taxes	1,187
Change in pension activity does not affect the fund balance on the statement of revenues, expenditures, and changes in fund balance for the governmental funds.	
Changes in pension activity that affect the City's net position are as follows:	
Net pension liability	(14,577)
Deferred outflows	25,900
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Principal paid on long-term debt	369,700
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Accrued interest expense	68
Compensated absences	(15,716)
	<hr/>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 1,246,245</b>
	<hr/> <hr/>

See Notes to Financial Statements.





# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

September 30, 2015

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,555,926	\$ 11,052,279	\$ 2,724,919	\$ 15,333,124
Receivables, net	27,725	119,561	96,648	243,934
Due from other funds	-	-	5,562	5,562
<b>Total Current Assets</b>	<b>1,583,651</b>	<b>11,171,840</b>	<b>2,827,129</b>	<b>15,582,620</b>
<b>Noncurrent Assets</b>				
Capital assets:				
Land	521,486	393,700	129,483	1,044,669
Construction in progress	2,466,014	654,144	728,992	3,849,150
Wastewater treatment facility	-	4,196,021	-	4,196,021
Water system	-	-	1,694,907	1,694,907
Sewer system	6,284,046	-	-	6,284,046
Less accumulated depreciation	(887,026)	(328,965)	(163,917)	(1,379,908)
<b>Total Net Depreciable Assets</b>	<b>5,397,020</b>	<b>3,867,056</b>	<b>1,530,990</b>	<b>10,795,066</b>
<b>Total Noncurrent Assets</b>	<b>8,384,520</b>	<b>4,914,900</b>	<b>2,389,465</b>	<b>15,688,885</b>
<b>Total Assets</b>	<b>9,968,171</b>	<b>16,086,740</b>	<b>5,216,594</b>	<b>31,271,505</b>
<b><u>Liabilities</u></b>				
<b>Current Liabilities</b>				
Accounts payable	487,440	212,434	212,273	912,147
Customer deposits	-	10,700	48,850	59,550
Due to other funds	400	5,562	-	5,962
Accrued interest	-	37,735	11,167	48,902
<b>Total Current Liabilities</b>	<b>487,840</b>	<b>266,431</b>	<b>272,290</b>	<b>1,026,561</b>
<b>Noncurrent Liabilities</b>				
Long-term liabilities due within one year	-	235,000	665,000	900,000
Long-term liabilities due in more than one year	-	13,160,000	3,580,000	16,740,000
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>13,395,000</b>	<b>4,245,000</b>	<b>17,640,000</b>
<b>Total Liabilities</b>	<b>487,840</b>	<b>13,661,431</b>	<b>4,517,290</b>	<b>18,666,561</b>
<b><u>Net Position</u></b>				
Net investment in capital assets	8,384,520	364,041	770,074	9,518,635
Restricted for:				
Debt service	-	171,449	174,606	346,055
Unrestricted	1,095,811	1,889,819	(245,376)	2,740,254
<b>Total Net Position</b>	<b>\$ 9,480,331</b>	<b>\$ 2,425,309</b>	<b>\$ 699,304</b>	<b>\$ 12,604,944</b>

See Notes to Financial Statements.



# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<b><u>Operating Revenues</u></b>				
Water charges	\$ -	\$ -	\$ 682,377	\$ 682,377
Sewer revenue	389,989	-	-	389,989
Wastewater treatment	-	1,618,821	-	1,618,821
Impact fees	28,000	1,172,977	45,350	1,246,327
<b>Total Operating Revenues</b>	<u>417,989</u>	<u>2,791,798</u>	<u>727,727</u>	<u>3,937,514</u>
<b><u>Operating Expenses</u></b>				
Water operations	-		409,085	409,085
Sewer operations	126,071		-	126,071
Wastewater collection operations	-	1,471,159	-	1,471,159
Depreciation	157,101	124,869	42,373	324,343
<b>Total Operating Expenses</b>	<u>283,172</u>	<u>1,596,028</u>	<u>451,458</u>	<u>2,330,658</u>
<b>Operating Income</b>	<u>134,817</u>	<u>1,195,770</u>	<u>276,269</u>	<u>1,606,856</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Interest expense and fiscal agent fees	-	(162,929)	(134,892)	(297,821)
Investment income	276	29	92	397
	<u>276</u>	<u>(162,900)</u>	<u>(134,800)</u>	<u>(297,424)</u>
<b>Income Before Transfers</b>	135,093	1,032,870	141,469	1,309,432
Transfers	<u>361,898</u>	<u>(524,264)</u>	<u>-</u>	<u>(162,366)</u>
<b>Change in Net Position</b>	496,991	508,606	141,469	1,147,066
Beginning net position	<u>8,983,340</u>	<u>1,916,703</u>	<u>557,835</u>	<u>11,457,878</u>
<b>Ending Net Position</b>	<u>\$ 9,480,331</u>	<u>\$ 2,425,309</u>	<u>\$ 699,304</u>	<u>\$ 12,604,944</u>

See Notes to Financial Statements.

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# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<b><u>Cash Flows from Operating Activities</u></b>				
Receipts from customers	\$ 405,278	\$ 2,856,903	\$ 683,466	\$ 3,945,647
Payments for costs of services net of retainage and accounts payables	361,769	(1,262,722)	(191,207)	(1,092,160)
<b>Net Cash Provided by Operating Activities</b>	<u>767,047</u>	<u>1,594,181</u>	<u>492,259</u>	<u>2,853,487</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Transfers (out) to other funds	361,898	(524,264)	-	(162,366)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>361,898</u>	<u>(524,264)</u>	<u>-</u>	<u>(162,366)</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Capital purchases	(2,431,510)	(744,007)	(728,992)	(3,904,509)
Debt proceeds	-	10,000,000	2,500,000	12,500,000
Principal paid on capital debt	-	(140,000)	(240,000)	(380,000)
Interest and fiscal agent fees paid	-	(162,929)	(134,892)	(297,821)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(2,431,510)</u>	<u>8,953,064</u>	<u>1,396,116</u>	<u>7,917,670</u>
<b><u>Cash Flows from Investing Activities</u></b>				
Interest received	276	29	92	397
<b>Net Cash Provided by Investing Activities</b>	<u>276</u>	<u>29</u>	<u>92</u>	<u>397</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,302,289)	10,023,010	1,888,467	10,609,188
Beginning cash and cash equivalents	2,858,215	1,029,269	836,452	4,723,936
<b>Ending Cash and Cash Equivalents</b>	<u><u>\$ 1,555,926</u></u>	<u><u>\$ 11,052,279</u></u>	<u><u>\$ 2,724,919</u></u>	<u><u>\$ 15,333,124</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating income	\$ 134,817	\$ 1,195,770	\$ 276,269	\$ 1,606,856
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	157,101	124,869	42,373	324,343
<b>Changes in Operating Assets and Liabilities:</b>				
<b>(Increase) Decrease in:</b>				
Accounts receivable	(12,711)	62,305	(8,956)	40,638
<b>Increase (Decrease) in:</b>				
Accounts payable	487,440	181,605	212,273	881,318
Accrued interest	-	26,832	5,605	32,437
Due to other funds	400	-	-	400
Customer deposits	-	2,800	(35,305)	(32,505)
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 767,047</u></u>	<u><u>\$ 1,594,181</u></u>	<u><u>\$ 492,259</u></u>	<u><u>\$ 2,853,487</u></u>

See Notes to Financial Statements.

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# **CITY OF LIBERTY HILL, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS***

**For the Year Ended September 30, 2015**

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The City of Liberty Hill, Texas (the “City”) was incorporated under the laws of the State of Texas in January 1999. The City operates as a “General Law” City, which provides for a “Mayor-Council” form of government.

The City provides the following services: public safety, highways and streets, sanitation, water and sewer services, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. They present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operation. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

#### **Blended Component Unit**

##### **Liberty Hill Economic Development Corporation**

The Liberty Hill Economic Development Corporation (LHEDC) is a non-profit corporation organized under the Development Corporation Act of 1979 and covered by Section 4B of the Act. The LHEDC was organized exclusively for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City; and for the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The LHEDC is governed by a board of directors appointed by the City Council. The LHEDC is responsible for managing a one-half percent sales tax for its economic development activities on behalf of the City. The LHEDC’s budget requires approval from City Council.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component unit. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water, wastewater, and sewer operation functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds, including the blended component unit. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, municipal court, police department, and parks and recreation. The general fund is always considered a major fund for reporting purposes.

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include the LHEDC and street maintenance fund. The City's LHEDC and street and maintenance fund are considered a nonmajor fund; however, the City has elected to present these funds as a major fund due to their significance.

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.



**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

The City reports the following enterprise fund:

The *enterprise funds* are used to account for the operations that provide water, sewer operations, and wastewater treatment. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The sewer, wastewater treatment, and water funds are considered major funds for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash and investments."

**2. Investments**

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term, highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Mutual funds of a specific type
- Statewide investment pools

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and fixtures	4-8 years
Infrastructure	40 years
Machinery and equipment	4-8 years
Water and sewer system	20-40 years
Buildings and improvements	10-40 years

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made. A deferred outflow of resources is also recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**6. Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation. Accumulated amounts, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**7. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements, as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

**8. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**9. Fund Balance Flow Assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**10. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

**11. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**12. Pensions**

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property Taxes**

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. Penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action.

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services and operating contributions. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined in the approved budget is at the department level. The original and final budget are presented for the general and major special revenue fund. The City presents the final budget for the debt service fund. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2015.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
State Pool (TexPool)	\$ 595,525	0.00
Certificate of deposit	220,595	1.34
<b>Total Investments</b>	<u><u>\$ 816,120</u></u>	
Portfolio Weighted Average Maturity		0.36

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*Credit risk.* State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent. Further, commercial paper must be rated not less than "A-1" or "P-1" or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2015, the City's investments in TexPool were rated "AAAm" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2015, market values of pledged securities and FDIC exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

**B. Receivables**

The following comprises receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>LHEDC</u>	<u>Street Maintenance</u>
Property taxes	\$ 3,027	\$ 12,432	\$ -	\$ -
Other taxes	120,419	-	46,286	23,143
Less allowance	(369)	(1,157)	-	-
<b>Total</b>	<u><u>\$ 123,077</u></u>	<u><u>\$ 11,275</u></u>	<u><u>\$ 46,286</u></u>	<u><u>\$ 23,143</u></u>
	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>	
Accounts	\$ 30,090	\$ 198,301	\$ 97,544	
Less allowance	(2,365)	(78,740)	(896)	
<b>Total</b>	<u><u>\$ 27,725</u></u>	<u><u>\$ 119,561</u></u>	<u><u>\$ 96,648</u></u>	



**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**C. Capital Assets**

A summary of changes in capital assets for the year is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 209,987	\$ 158,334	\$ -	\$ 368,321
Construction in progress	-	42,029	-	42,029
	<u>209,987</u>	<u>200,363</u>	<u>-</u>	<u>410,350</u>
Other capital assets:				
Building and improvements	794,482	52,132	-	846,614
Machinery and equipment	461,882	134,318	(82,000)	514,200
	<u>1,256,364</u>	<u>186,450</u>	<u>(82,000)</u>	<u>1,360,814</u>
Less accumulated depreciation for:				
Building and improvements	(118,021)	(21,701)	-	(139,722)
Machinery and equipment	(458,865)	(6,034)	82,000	(382,899)
	<u>(576,886)</u>	<u>(27,735)</u>	<u>82,000</u>	<u>(522,621)</u>
Other capital assets, net	<u>679,478</u>	<u>158,715</u>	<u>-</u>	<u>838,193</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 889,465</u>	<u>\$ 359,078</u>	<u>\$ -</u>	<u>\$ 1,248,543</u>
<b>Net Investment in Capital Assets</b>				<u>\$ 1,248,543</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 19,140
Public safety	7,217
Public works	<u>1,378</u>
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 27,735</u>

The following is a summary of changes in capital assets for business-type activities for the year:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,044,670	\$ -	\$ -	\$ 1,044,670
Construction in progress	58,746	3,790,404	-	3,849,150
	<u>1,044,670</u>	<u>3,790,404</u>	<u>-</u>	<u>4,893,820</u>
Other capital assets:				
Wastewater treatment facility	4,081,916	114,105	-	4,196,021
Water system	1,694,907	-	-	1,694,907
Sewer system	6,284,046	-	-	6,284,046
	<u>12,060,869</u>	<u>114,105</u>	<u>-</u>	<u>12,174,974</u>
Less accumulated depreciation for:				
Wastewater treatment facility	(204,096)	(124,869)	-	(328,965)
Water system	(121,545)	(42,373)	-	(163,918)
Sewer system	(729,925)	(157,101)	-	(887,026)
	<u>(1,055,566)</u>	<u>(324,343)</u>	<u>-</u>	<u>(1,379,909)</u>
Other capital assets, net	<u>11,005,303</u>	<u>(210,238)</u>	<u>-</u>	<u>10,795,065</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 12,049,973</u>	<u>\$ 3,580,166</u>	<u>\$ -</u>	<u>15,688,885</u>
Plus unspent proceeds				11,469,750
Less associated debt				(17,640,000)
<b>Net Investment in Capital Assets</b>				<u>\$ 9,518,635</u>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

Depreciation was charged to business-type functions as follows:

Water operations	\$ 42,373
Sewer operations	157,101
Wastewater collection operations	124,869
<b>Total Business-Type Activities Depreciation Expense</b>	<b>\$ 324,343</b>

**D. Long-Term Debt**

The following is a summary of changes in the City's total governmental long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
2006A Certificates of Obligation	\$ 980,000	\$ -	\$ (60,000)	\$ 920,000	* \$ 60,000
2006B Certificates of Obligation	4,955,000	-	(305,000)	4,650,000	* 315,000
Capital leases	4,700	-	(4,700)	-	-
Net pension liability	(6,751)	14,577	-	7,826	-
Compensated absences	16,515	30,580	(14,864)	32,231	29,008
<b>Total Governmental Activities</b>	<b>\$ 5,949,464</b>	<b>\$ 45,157</b>	<b>\$ (384,564)</b>	<b>\$ 5,610,057</b>	<b>\$ 404,008</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 5,206,049</b>	
<b>*Debt associated with business-type capital assets</b>				<b>\$ 5,570,000</b>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total business-type long-term liabilities for the year. The City uses the water and wastewater service revenues to liquidate business-type long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Business-Type Activities:</b>					
2012 Water Revenue Bonds	\$ 1,985,000	\$ -	\$ (90,000)	\$ 1,895,000	\$ 95,000
2012 Wastewater Treatment Facility Revenue Bonds	3,535,000	-	(140,000)	3,395,000	145,000
2014 Water System Revenue Bonds	-	2,500,000	(150,000)	2,350,000	140,000
2014 Wastewater Treatment Facility Revenue Bonds	-	10,000,000	-	10,000,000	520,000
<b>Total Business-Type Activities</b>	<b>\$ 5,520,000</b>	<b>\$ 12,500,000</b>	<b>\$ (380,000)</b>	<b>\$ 17,640,000</b>	<b>* \$ 900,000</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 16,740,000</b>	
<b>*Debt associated with business-type capital assets</b>				<b>\$ 17,640,000</b>	

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

Governmental activities long-term debt at year end was comprised of the following debt issues:

Description	Rates	Balance
<b>Certificates of Obligation</b>		
Series 2006A	3.00-3.65%	\$ 920,000
Series 2006B	2.00-2.65%	4,650,000
<b>Total Certificates of Obligation</b>		<b>5,570,000</b>
<b>Total Governmental Activities Long-Term Debt</b>		<b>\$ 5,570,000</b>

Business-type activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
<b>Revenue Bonds</b>		
2012 Water Revenue Bond	1.00-4.85%	\$ 1,895,000
2012 Wastewater Treatment Facility	3.85%	3,395,000
2014 Water System Revenue Bond	3.01%	2,350,000
2014 Wastewater Treatment Facility	2.52%	10,000,000
<b>Total Revenue Bonds</b>		<b>17,640,000</b>
<b>Total Business-Type Activities Long-Term Debt</b>		<b>\$ 17,640,000</b>

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sep. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 375,000	\$ 154,633	\$ 900,000	\$ 569,907
2017	390,000	146,185	960,000	504,409
2018	405,000	137,335	985,000	478,443
2019	420,000	127,910	1,015,000	451,644
2020	435,000	117,945	1,050,000	423,673
2021-2025	2,435,000	429,048	5,685,000	1,657,695
2026-2030	1,110,000	82,510	6,620,000	785,498
2031-2032	-	-	425,000	81,760
<b>Total</b>	<b>\$ 5,570,000</b>	<b>\$ 1,195,566</b>	<b>\$ 17,640,000</b>	<b>\$ 4,953,029</b>

During the fiscal year 2015, the City council approved two revenue bonds for \$12,500,000. \$2,500,000 is for water system construction and \$10,000,000 is for wastewater treatment facility construction. Debt service payments for both of these bonds will come from revenue from the water and wastewater funds.

**Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, could result in a substantial liability to the City. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

**E. Interfund Transactions**

Transfers between the primary government funds during the year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Wastewater Fund	\$ 162,366
Sewer Fund	Wastewater Fund	361,898
	<b>Total</b>	<u><u>\$ 524,264</u></u>

Amounts transferred between funds were related to operating activities.

The composition of interfund balances was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Street Maintenance Fund	General Fund	\$ 2,228
Water Fund	Wastewater Fund	5,562
General Fund	Sewer Fund	400
LHEDC Fund	General Fund	22,446
Debt Service Fund	General Fund	52,270
	<b>Total</b>	<u><u>\$ 82,906</u></u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

**F. Fund Equity**

Funds restricted by enabling legislation are \$79,277, which are related to municipal court security and technology fees and Public Education Government fees.

**G. Restatement of Net Position**

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for a net pension asset as of the initial measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year September 30, 2014.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

The beginning net position was restated as follows:

	<u>Governmental Activities</u>
<b>Prior year ending net position as reported</b>	\$ (3,073,358)
Restatement - Net pension asset	6,751
Restatement - Deferred outflows	8,008
<b>Restated beginning net position</b>	<u><u>\$ (3,058,599)</u></u>

#### **IV. OTHER INFORMATION**

##### **A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

##### **B. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**C. Pension Plan**

**Texas Municipal Retirement System**

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2015</u>	<u>2014</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees entitled to, but not yet receiving benefits	7
Active employees	11
<b>Total</b>	<u><u>18</u></u>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.35 percent and 2.78 percent in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$18,067 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is seven percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was seven percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 40,516	\$ -	\$ 40,516
Interest	17,896	-	17,896
Difference between expected and actual experience	21,818	-	21,818
Contributions - employer	-	12,443	(12,443)
Contributions - employee	-	39,026	(39,026)
Net investment income	-	14,346	(14,346)
Benefit payments, including refunds of employee contributions	(16,899)	(16,899)	-
Administrative expense	-	(150)	150
Other changes	-	(12)	12
<b>Net Changes</b>	<b>63,331</b>	<b>48,754</b>	<b>14,577</b>
Balance at December 31, 2013	243,843	250,594	(6,751)
<b>Balance at December 31, 2014</b>	<b>\$ 307,174</b>	<b>\$ 299,348</b>	<b>\$ 7,826</b>



**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 52,117	\$ 7,826	\$ (28,820)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$7,256.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,207	\$ -
Difference between projected and actual investment earnings	2,557	-
Contributions subsequent to the measurement date	14,145	-
<b>Total</b>	<b>\$ 33,909</b>	<b>\$ -</b>

\$14,145 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	Pension Expense
2015	\$ 5,250
2016	5,250
2017	5,250
2018	4,014
<b>Total</b>	<b>\$ 19,764</b>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

**D. Other Post Employment Benefits**

**TMRS Supplemental Death Benefit Fund**

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal years ended 2015, 2014, and 2013 were \$220, \$144, and \$118, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years are shown below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Req. Contrib. (Rate)	0.00%	0.00%	0.00%
Actual Contribution Made	0.00%	0.00%	0.00%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

***REQUIRED SUPPLEMENTARY INFORMATION***



**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended September 30, 2015

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 104,951	\$ 115,000	\$ 122,903	\$ 7,903
Sales taxes	461,933	501,800	546,472	44,672
Franchise and local taxes	120,000	113,000	106,269	(6,731)
Fines and forfeitures	168,269	136,423	132,137	(4,286)
Licenses and permits	272,020	510,400	565,546	55,146
Intergovernmental	350,000	345,000	-	(345,000)
Other	689,231	376,588	141,237	(235,351)
<b>Total Revenues</b>	<u>2,166,404</u>	<u>2,098,211</u>	<u>1,614,564</u>	<u>(483,647)</u>
<b>Expenditures</b>				
General administration	1,048,118	979,494	555,269	424,225
Municipal court	186,363	213,615	141,353	72,262
Police department	523,673	562,405	504,167	58,238
Parks and recreation	82,806	131,505	108,155	23,350
<b>Total Expenditures</b>	<u>1,840,960</u>	<u>1,887,019</u>	<u>1,308,944</u>	<u>578,075</u>
<b>Excess of Revenues Over Expenditures</b>	<u>325,444</u>	<u>211,192</u>	<u>305,620</u>	<u>94,428</u>
<b>Other Financing Sources (Uses)</b>				
Transfers	-	-	162,366	162,366
<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>162,366</u>	<u>162,366</u>
<b>Net Change in Fund Balance</b>	<u>\$ 325,444</u>	<u>\$ 211,192</u>	<u>467,986</u>	<u>\$ 256,794</u>
Beginning fund balance			<u>832,758</u>	
<b>Ending Fund Balance</b>			<u>\$ 1,300,744</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).



**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**LIBERTY HILL ECONOMIC DEVELOPMENT CORPORATION FUND**  
For the Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Revenues</u></b>				
Sales taxes	\$ 208,171	\$ 226,000	\$ 258,124	\$ 32,124
Other	1,881	3,000	3,035	35
<b>Total Revenues</b>	<u>210,052</u>	<u>229,000</u>	<u>261,159</u>	<u>32,159</u>
<b><u>Expenditures</u></b>				
General government	<u>315,600</u>	<u>381,654</u>	<u>237,441</u>	<u>144,213</u>
<b>Total Expenditures</b>	<u>315,600</u>	<u>381,654</u>	<u>237,441</u>	<u>144,213</u>
<b>Net Change in Fund Balance</b>	<u>\$ (105,548)</u>	<u>\$ (152,654)</u>	23,718	<u>\$ 176,372</u>
Beginning fund balance			<u>710,348</u>	
<b>Ending Fund Balance</b>			<u>\$ 734,066</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**STREET MAINTENANCE FUND**  
For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b><u>Revenues</u></b>				
Sales taxes	\$ 116,233	\$ 138,000	\$ 142,502	\$ 4,502
Other	579,404	587,249	49,911	(537,338)
<b>Total Revenues</b>	<u>695,637</u>	<u>725,249</u>	<u>192,413</u>	<u>(532,836)</u>
<b><u>Expenditures</u></b>				
Street maintenance	<u>673,736</u>	<u>669,550</u>	<u>179,544</u>	<u>490,006</u>
<b>Total Expenditures</b>	<u>673,736</u>	<u>669,550</u>	<u>179,544</u>	<u>490,006</u>
<b>Net Change in Fund Balance</b>	<u>\$ 21,901</u>	<u>\$ 55,699</u>	12,869	<u>\$ (42,830)</u>
Beginning fund balance			<u>367,697</u>	
<b>Ending Fund Balance</b>			<u>\$ 380,566</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**

September 30, 2015

	Measurement Year <u>2014*</u>
<b>Total Pension Liability</b>	
Service cost	\$ 40,516
Interest (on the total pension liability)	17,896
Difference between expected and actual experience	21,818
Benefit payments, including refunds of employee contributions	(16,899)
<b>Net Change in Total Pension Liability</b>	<u>63,331</u>
Beginning total pension liability	<u>243,843</u>
<b>Ending Total Pension Liability</b>	<u><u>\$ 307,174</u></u>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 12,443
Contributions - employee	39,026
Net investment income	14,346
Benefit payments, including refunds of employee contributions	(16,899)
Administrative expense	(150)
Other	(12)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>48,754</u>
Beginning plan fiduciary net position	<u>250,594</u>
<b>Ending Plan Fiduciary Net Position</b>	<u><u>\$ 299,348</u></u>
<b>Net Pension Liability</b>	<u><u>\$ 7,826</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	97.45%
<b>Covered Employee Payroll</b>	557,512
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	(1.40%)

Notes to Schedule:

\*Only one year of information is currently available. The City will build this schedule over the next-nine year period.

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**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2015**

	<u>Fiscal Year</u> <u>2015*</u>
Actuarially determined contribution	\$ 18,067
Contributions in relation to the actuarially determined contribution	<u>18,067</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
 Covered employee payroll	 \$ 557,512
 Contributions as a percentage of covered employee payroll	 3.24%

**Notes to Required Supplementary Information:**

\*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.



***OTHER SUPPLEMENTARY INFORMATION***





**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**For the Year Ended September 30, 2015**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Revenues</u></b>			
Property taxes	\$ 519,633	\$ 535,571	\$ 15,938
Other	-	94	94
<b>Total Revenues</b>	<u>519,633</u>	<u>535,665</u>	<u>16,032</u>
<b><u>Expenditures</u></b>			
Principal	365,000	365,000	-
Interest expense	154,633	154,633	-
<b>Total Expenditures</b>	<u>519,633</u>	<u>519,633</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	16,032	<u>\$ 16,032</u>
Beginning fund balance		<u>82,231</u>	
<b>Ending Fund Balance</b>		<u>\$ 98,263</u>	

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